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STATE FOR EUR/NCE
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SUBJECT: SLOVAKIA - 2009 INVESTMENT CLIMATE STATEMENT

Overview

¶1. Slovakia's once troubled economy has been transformed in the last ten years into a business friendly market-model, which led the region with GDP growth of 7.1 percent (est.) in 2008. Comprehensive structural reforms adopted by the Slovak government in the first several years of this decade led the World Bank to name the country the world's top reformer in improving the investment climate in its "Doing Business in 2005" report. Slovakia's relatively low-cost yet skilled labor force, low taxes, liberal labor code and favorable geographic location have helped it become one of Europe's favorite investment markets. The Financial Times described Slovakia as the "Detroit of the East," and Forbes magazine called it the world's next Hong Kong or Ireland. The election of the left-leaning Smer (or Direction) party in 2006 has slowed reform momentum and led to some less business-friendly changes in labor, pension, and social insurance legislation. The Business Alliance of Slovakia, for instance, has reported an eight-quarter downward trend in the quality of the business environment, citing a slow and ineffective legal system, unequal treatment in the legal system, and an ineffective political system. The government's commitment to adopting the euro in 2009, however, tempered proposals to overhaul the previous reforms and contributed to stable macroeconomic policies. Slovakia succeeded in joining the European Monetary Union on January 1, 2009.

¶2. Slovakia is a member of the European Union (EU), the North Atlantic Treaty Organization (NATO), and the Organization for Economic Cooperation and Development (OECD), and it holds investment grade ratings from all three major rating agencies. The Wall Street Journal and Heritage Foundation's 2008 Index of Economic Freedom ranked Slovakia 36 of the 183 countries examined, a slight drop from the previous year. In the Global Competitiveness Report 2008-9, compiled by the World Economic Forum, Slovakia places 46 (of 134) on the global competitiveness index, a drop of 5 places from the previous year. The F.A. Hayek Foundation, in a ranking developed with the Swiss Institute for Management Development (IMD), confirmed that Slovakia had moved up four places to stand 30th in a 2008 ranking of 55 countries evaluated according to the competitiveness of their economies.

¶3. With the election of Prime Minister Mikulas Dzurinda in 1998, Slovakia instituted a number of investment liberalization policies that enabled it to surpass its neighbors in FDI inflows. Since 1998, cumulative FDI has increased sevenfold to USD 18.45 billion by the end of 2006; in 2007, inflows were roughly USD 1.1 billion. In recent years, Slovakia recorded several investment success stories, such as attracting a USD 1.5 billion investment from Kia for its first European assembly plant; USD 400 million from Getrag Ford for a gearbox production plant and a USD 100 million commitment from Sony for the production of LCD TVs. Korean electronics manufacturer Samsung decided to place its USD 400 million investment into an LCD flat panel screen production facility in Slovakia in 2007. A 2008 survey by the U.S. Embassy showed U.S. investments in Slovakia at approximately USD 4 billion for current and future commitments. (Note: official Government of Slovakia (GOS) statistics differ because some U.S. investments are credited to third countries, depending on corporate structure).

Openness to Foreign Investment

¶4. In the late 1990s, Slovakia had only one-sixth as much cumulative foreign direct investment (FDI) per capita as Hungary or the Czech Republic. According to data from the United Nations Conference on Trade and Development (UNCTAD), by the end of the 2006, Slovakia's per capita FDI (weighted averages by population) was the highest among its neighboring countries, amounting to USD 771, compared to USD 606 in Hungary, USD 584 in the Czech Republic and USD 362 in Poland. Slovakia was ranked 61st on UNCTAD's most recent performance index for 2004-2006 based on the country's share in global FDI inflows and GDP. Ernst & Young's "European Attractiveness Survey 2008" showed Slovakia as 8th in Europe in terms of job creation, with 8,479 jobs created by foreign investors in 2007, which represents a 37 percent decrease in comparison with the previous year and second in the total direct investments per million inhabitants. The report ranked Slovakia eighth in Central and Eastern Europe with 58 direct foreign investment projects, behind Poland, the Czech Republic, and Romania.

¶5. The biggest 2007 contracts included a USD 416 million investment by Korean LCD flat panel TV screens manufacturer Samsung and a USD 100 million investment by Japanese TV sets manufacturer Sony. Since 2003, Slovakia has attracted three big automotive projects, i.e., a USD 850 million car plant by PSA Peugeot Citroen, Europe's second largest carmaker; a USD 1.5 billion investment from Hyundai Kia, the world's seventh biggest car producer and a USD 400 million gearbox plant by Getrag Ford, a joint venture of the second largest U.S. car manufacturer, Ford Motors, and German Getrag. In late 2005, PSA Peugeot Citroen announced it would boost its initial investment in Slovakia by an additional USD 422 million. In 2007, Kia expanded its investment in Slovakia by USD 280 million, creating an additional 663 jobs and doubling its originally forecast engine production in Slovakia from 300,000 to 600,000 units per year. Altogether, auto makers in Slovakia produced nearly 800,000 vehicles in 2008.

¶6. As of January 2008, the GOS enacted a new Act on Investment Assistance, which provides varying levels of aid to domestic and foreign investors for the period 2007-2013, depending on a number of factors including level of unemployment in the proposed region of investment, business sector, size of investment, and the type of employment that will be provided. Assistance levels range from 10 percent to 50 percent of eligible costs. The rules also lay out what type of aid is available (tax credit, financial subsidy, discounted price for land, etc.), the responsibilities and decision making schemes of the state institutions, and the maximum amount of aid available to an individual investment based on the relevant circumstances. In general, the new rules were structured to encourage investments into less-developed regions with high unemployment and/or into more sophisticated production and/or research and development. There are four priority areas identified in the new rules: industrial production, technology centers, centers of strategic services, and tourism. The new rules provide structure and transparency to a process that has been much more ad hoc and opaque.

¶7. The legislation, which was prepared by the Ministry of Economy, brings Slovak law into compliance with the new and stricter European Commission (EC) guidelines and its new "aid map" for 2007-2013. The EC has approved a regional aid map for each member state that identifies the regions and sectors eligible for aid and the maximum aid amounts allowed. Under the new legislation, the Slovak government does not have to seek EC approval for each individual investment project up to roughly USD 4.4 million, which should dramatically speed up the application process. The major changes in Slovakia include a reduction in the ceiling of support that can be issued in Western Slovakia and the districts of the city of Bratislava. In general, the new rules further encourage investments in areas with high unemployment and targeted sectors such as information technology and tourism. Several forms of state aid are available: discounted prices for land, financial subsidies for acquiring tangible and intangible assets related to the investment, tax credits, and grants for the creation of new jobs. For the first time domestic investors have become eligible to apply for state aid as well.

¶8. Regional governments can also provide support to companies in various forms, including infrastructure and training. In addition, Slovakia currently offers one of the most advantageous tax

environments for corporations among all OECD and EU states. In 2004, the country imposed a flat income tax rate of 19 percent, both for corporations and individuals, and eliminated virtually all exemptions and deductions. In addition, the GOS eliminated withholding taxes on dividends, thus permitting foreign firms to pay back parent companies without being taxed.

¶9. In 2007 Slovakia approved state aid totaling USD 140 million to 15 investment projects, including the U.S. company TRW Steering Systems Slovakia, in the form of tax relief, job creation, education grants, direct state subsidies for building infrastructure and/or acquiring land. One of the largest recipients of the state incentives in 2008 was Volkswagen Slovakia, for which the government approved investment incentives totaling EUR 14.3 million. The new expansion plans of Volkswagen Slovakia worth EUR 298.75 million should create 760 new jobs by the end of 2012, and state aid will be offered in a form of tax breaks. The highest numbers of foreign investment projects were in the mechanical engineering industry (14), electromechanical industry (12) and automotive industry (11). The largest finished investment projects in 2007 originated from Germany, South Korea, Austria and Great Britain. Most of the supported investment projects were located in the Kosice (16), Bratislava (9), Nitra (8) and Trnava (8) regions. The largest new projects from an employment point of view were located in the Trnava (3961), Nitra (3656), Kosice (1877) and Banska Bystrica (1740) regions. (Source: Slovak Investment and Trade Development Agency)

¶10. The Industrial Park Law (193/2001 Z.z.) helps municipalities develop special industrial zones through funding assistance from the Slovak government. The Slovak government can fund up to 85 percent of the overall cost related to the purchase of land and development of infrastructure in an industrial park. In regions with an unemployment rate exceeding 10 percent, state co-financing could cover as much as 95 percent of all eligible costs (NOTE: this exemption applies to virtually all regions of Slovakia, except for western Slovakia). The Slovak Investment and Trade Development Agency (SARIO) currently registers 39 industrial parks that are capable of housing potential investors within a short period of time. The SARIO website (www.sario.sk) offers more detailed information.

¶11. The government in Slovakia halted all large-scale privatization plans and a number of re-nationalizations of infrastructure have also been announced in the last year. The current law on strategic privatization, which was enacted by the previous government, permits complete privatization of most businesses and allows for 49 percent foreign ownership (with management control) of the natural gas distributor, the electric power producer, electricity distributors, and an oil pipeline. All of these privatizations have been completed. The state must still retain ownership of railroad right of ways, postal services, water supplies (but not suppliers) and forestry companies. However, the government of Prime Minister Robert Fico, which came to power in mid 2006, is very reluctant to proceed with further sales of state assets. It cancelled a privatization tender for the rail cargo company, reversed the privatization of the Bratislava airport, stopped privatizations of regional heating companies, and imposed a ban on further privatization of designated "strategic" companies.

Conversion and Transfer Policies

¶12. Slovakia entered the European Monetary Union and adopted the euro as its currency as of January 1, 2009, with the conversion rate set at 30.126 Slovak crowns (SKK) to 1 euro. It will be possible to exchange Slovak crowns for euros through 2009. The Slovak crown was fully convertible for current account and capital account transactions.

¶13. Foreign exchange operations are governed by the Foreign Exchange Act (312/2004 Z.z.), and one can easily convert or transfer funds associated with an investment. As a member of the OECD, Slovakia meets all international standards for conversion and transfer policy. In 2003, an amendment to the Foreign Exchange Act liberalized operations with financial derivatives and abolished the limit on the export and import of banknotes and coins (domestic and foreign currency). Since January 2004, an amendment to the Foreign Exchange Act authorized Slovak residents to open accounts abroad and eliminated the obligation to transfer financial assets acquired

abroad into Slovakia. Non-residents may hold foreign exchange accounts. No permission is needed to issue foreign securities in Slovakia, and Slovaks are free to trade, buy and sell foreign securities. There are very few controls on capital transactions, except for rules governing commercial banking and credit institutions, which must abide by existing banking laws.

Expropriation and Compensation

¶14. In 2004, Slovakia witnessed one expropriation case, widely considered an anomaly. The GOS began an expropriation process for land from local farmers to use for the site of Hyundai/Kia's car plant - the country's largest foreign greenfield investment ever. An independent panel established the market value of the land and the GOS paid this amount; some landowners appealed. The constitution, as well as the commercial and civil codes, permits expropriation only in exceptional cases of public interest, and compensation must be provided. The law also provides for an appeal process. There were no cases of expropriation in 2007. In December 2007, the GOS approved a new expropriation or eminent domain law that allows the state to construct highways on private property without prior consent of the landowner if the construction parcel is considered "strategic" for Slovak interests. Owners would be compensated by the state after the fact. The legislation is aimed at speeding up highway construction projects to finish the connection between Bratislava and Kosice.

Dispute Settlement

¶15. On December 29, 2004, the International Center for Settlement of Investment Disputes (ICSID) ruled in favor of the Czech bank Ceskoslovenska Obchodna Banka (CSOB) in its claim against Slovakia and ordered the GOS to pay the bank SKK 24.7 billion (USD 800 million). CSOB's claim dated back to 1993, when it provided a loan to a special state agency set up to assume CSOB's bad debts as part of a division of assets between Slovakia and the Czech Republic as the successor states of the former Czechoslovakia.

¶16. A law passed in October 2007 banned health insurance companies from paying dividends to their shareholders and severely limited allowable overhead costs. In response, one of the shareholders of health insurance Dovera, Health Insurance Companies of Eastern Europe, has filed for international arbitration in the amount of nearly EUR 500 million.

¶17. There have been no other major investment disputes in Slovakia in recent years. Slovakia is a contracting state of the ICSID, the World Bank's Commercial Arbitration Tribunal (established under the 1966 Washington Convention), and is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards.

¶18. The Slovak judicial system is comprised of general courts and the Constitutional Court. General courts decide in civil and criminal matters and also review the lawfulness of decisions by administrative bodies. District courts (54) are the first instance courts, and regional courts (8) hear cases as appeals courts. The Supreme Court of the Slovak Republic is the final review court. A special court for corruption, organized crime and crimes of highest public officials has been operational since 2005, though its constitutionality has been challenged by members of Parliament during the past year. Judges of general courts are nominated by the Judicial Council of the Slovak Republic and are appointed for life by the President. They may only be removed for cause. The Constitutional Court of the Slovak Republic is an independent judicial body that decides on the conformity of legal norms, adjudicates conflicts of authority between government agencies, hears complaints, including complaints of individuals regarding their human rights, and interprets the Constitution or constitutional statutes. Judges of the Constitutional Court are appointed for 12-year terms by the President from a list of candidates selected by the parliament.

¶19. The legal system enforces property and contractual rights, but decisions may take years, thus limiting the utility of the courts for dispute resolution. Slovak courts recognize and enforce foreign judgments, subject to the same delays. The commercial code appears to be applied consistently. Slovakia accepts binding international

arbitration, and the Slovak Chamber of Commerce and Industry has a court of arbitration for alternative dispute resolution; nearly all cases involve disputes between Slovak and foreign parties. Slovak domestic companies generally do not make use of arbitration clauses in contracts.

¶20. A new law on bankruptcy and restructuring entered into effect on January 1, 2006. Its main aim was to shorten the duration of cases, which average between 3 and 7 years, and to increase the volume of revenues recovered from the current average of 5 to 10 percent. The current law allows companies to undergo court-protected restructuring and individuals to discharge their debts through bankruptcy. According to the International Monetary Fund, the act overhauls ineffective bankruptcy procedures by speeding up their processing, improving creditor rights, reducing discretion by bankruptcy judges, and randomizing the allocation of cases to judges to reduce the potential for corruption. A new law on trustees entered into effect on July 1, 2005. Its main goal was to increase requirements for professional skills of trustees. Trustees must now graduate from accredited institutions or private companies, receive a license from the Ministry of Justice, and will be subject to continued monitoring by the ministry and bankruptcy courts.

¶21. Slovakia recognizes secured interests in immovable property, normally secured by physical possession of, or a conveyed title to, the property in question until the loan is repaid. There is a recognized procedure for foreclosures, which specifies how evictions are handled, debts are repaid and any remaining funds are returned to the titleholder. Since 2003, Slovakia has one of the most advanced frameworks in Europe for registering security interests in moveable property.

Performance Requirements and Incentives

¶22. Slovakia has no formal performance requirements for establishing, maintaining, or expanding foreign investments. However, such requirements may be included as conditions of specific negotiations for property involved in large-scale privatization by direct sale or public auction. (Note: see the "Openness to Foreign Investment" section for details on incentives). There are no obstacles for foreign entities to participate in GOS financed and/or subsidized research and development programs and to receive equal treatment as domestic entities. There are no domestic ownership requirements for telecommunications and broadcast licenses.

¶23. A new law regarding defense offsets has been in effect since January 1, 2008. The law outlines the basic principles and responsibilities of the supplier and the relevant state institutions (Ministry of Defense, Ministry of Economy, interdepartmental offset committee) for offset programs in Slovakia, based on similar legislation in other EU and NATO countries. The law requires offsets of 20 percent direct or 30 percent for a combination indirect and direct offsets of the value for defense contracts worth over EUR 6 million. The offsets can be reduced by a set formula if applied in specific areas such as technology transfer, R&D, education, IT and direct investments.

Right to Private Ownership and Establishment

¶24. Foreign and domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity in Slovakia. Competitive equality is the standard by which private enterprises compete with public entities.

In addition, businesses are able to contract directly with foreign entities. Private enterprises are free to establish, acquire and dispose of business interests, but all Slovak obligations of liquidated companies must be paid before any remaining funds are transferred out of Slovakia. Non-residents from EU and OECD member countries can acquire real estate for business premises. For a transitional period of seven years starting May 1, 2004, foreign legal entities can buy agricultural and forestry land, as well as land in residential areas only if they establish a legally registered Slovak company. Since January 2004, there are no restrictions for Slovak residents on the purchase, exchange, and sale of real estate abroad.

Protection of Property Rights

¶25. Secured interests in property and contractual rights are recognized and enforced. The mortgage market in Slovakia is growing, and a reliable system of recording such interests exists. However, titles to real property are often unclear and can take significant amounts of time to determine. The GOS recognizes this problem and is taking steps to resolve it. Unfortunately, legal decisions may still take years, thus limiting the utility of the system for dispute resolution.

¶26. Slovak courts recognize and enforce foreign judgments, subject to the aforementioned delays, and the commercial code is applied consistently. A new bankruptcy law adopted in 2006 has improved creditors' rights in bankruptcy cases. The business community still considers corruption to be a significant factor in the court system.

¶27. Protection of intellectual property rights (IPR) falls under the jurisdiction of two agencies. The Industrial Property Office is responsible for most areas, and the Ministry of Culture is responsible for copyrights (including software). Slovakia is a member of the World Trade Organization (WTO), the European Patent Organization and the World Intellectual Property Organization (WIPO). The WTO TRIPS agreement is legally in force in Slovakia, but there have been no cases brought to test actual enforcement. Slovakia also adheres to other major intellectual property agreements including the Bern Convention for Protection of Literary and Artistic Works, the Paris Convention for Protection of Industrial Property, and numerous other international agreements on design classification, registration of goods, appellations of origin, patents, etc. In general, patents, copyrights, trademarks and service marks, trade secrets, and semiconductor chip design appear adequately protected under Slovak law and practice.

¶28. In 2006, Slovakia was taken off the Watch List of the U.S. Trade Representative's annual interagency "Special 301" review in recognition of the significant progress that the GOS has made in addressing concerns related to the protection of pharmaceutical patents in Slovakia. First, the Slovak authorities have adopted legal and administrative measures to ensure that patent-infringing drugs are not given market authorization. Second, the government has built a new secure facility to house confidential pharmaceutical test data.

Transparency of Regulatory System

¶29. In general, transparency and predictability have been problematic for many investors. The process of obtaining residency permits for expatriate managers has been criticized for years as difficult and time-consuming. New legislation, which came into effect in December 2005, addressed some but not all of the problematic areas. A new amendment to the law governing the stay of foreigners, effective from January 2007, introduced the EU directive 562/2006 on "Schengen borders." Investors have long complained that purchasing land and obtaining building permits are time-consuming and unpredictable processes, but improvements, including the recently- launched web portal (www.katasterportal.sk) which enables interested parties to verify information about land ownership online, have started to ease the process. Formerly, inconsistencies within the tax system had been a problem, but a major tax reform in 2004 improved this situation. Today, many observers consider Slovakia's flat rate tax system to be one of the simplest in Europe.

¶30. The Commercial Code and the 1991 Economic Competition Act govern competition policy in Slovakia. The Anti-Monopoly Office is responsible for preventing noncompetitive situations. The newly amended Law on Public Procurement, valid from 2006, harmonized Slovak law with all relevant EU directives on public procurement. In the past, the Office of Public Procurement, the supervisory body for government procurements, has been embroiled in several controversial public tenders. In 2005, about one third of public procurement contracts distributed by the central, regional and local governments in Slovakia were not supervised or audited by another state body, according to a study by corruption watchdog Transparency International Slovakia (TIS). TIS reported that USD 1.2 billion of more than USD 3.5 billion in public orders were issued under public procurement act provisions that freed them from supervision.

¶31. In 2006, the Slovak government contracted IBM to supply the

Ministry of Transport, Posts and Telecommunications with USD 2.2 million integrated system for electronic public tendering. The aim is to make the execution of public procurement completely paperless. The electronic tendering system supports the tendering cycle, from notifications to national and European agencies, to publication of tender documentation, enquiries, submission of binding offers, and evaluation of bids. The project was successfully implemented in 2007 and responsibilities for its administration were delegated to the Public Procurement Office as well as to Ministry of Finance. Nevertheless, concern about the transparency and integrity of public tenders is a subject of concern which has led to the dismissal of government ministers and to inquiries on the part of the European Commission.

¶32. Foreign investors and foreign companies doing business in Slovakia have complained about the transparency of regulatory processes in several industries, and a number of regulatory bodies are considered by the business community to be less than fully independent. Government pressure on regulators in the telecommunications and energy industries has resulted in the replacement of the directors and leadership of the Regulatory Office of Network Industries (URSO) and Telecommunications Office of the Slovak Republic.

Efficient Capital Markets and Portfolio Investment

¶33. After Slovakia joined the OECD, the export of capital and outward direct investment were liberalized to conform to international standards. As of November 2008, the Slovak banking sector was composed of 16 banks (established and with permanent residency in Slovakia) and 10 licensed branches of foreign banks. Citibank is the only U.S. bank in Slovakia. The sector is overwhelmingly foreign-owned. Through November 2008, the assets of all Slovak banks totaled about USD 75 billion.

¶34. Slovakia's stock market remains weak and unimportant in an international context. Unless reforms in Slovakia's pension system boost domestic equity trading (NOTE: Newly-established pension administration companies are obliged by the law to invest at least 30 percent of their assets in Slovakia), the domestic market has very limited prospects. In 2001, the Bratislava Stock Exchange (BSSE) opened a floor for trading foreign securities in order to boost the market sentiment, but to date there has been little activity. The BSSE's trading system enables it to organize securities trading in any currency and to structure stock exchanges with few restrictions. When raising capital, Slovak companies usually float shares on the Vienna or Warsaw stock exchanges.

¶35. At the mid-2008, the total number of issues on the BSSE was 338, of which 132 were bond issues. Total market capitalization amounted to USD 24 billion, down 3.3 percent from the same period in 2007. The total volume traded in the first half of 2008 was USD 4.95 billion (down almost 60 percent year on year), with 1.2 million units of securities changing owners in 1,930 transactions. Over 99 percent of this trading volume was bond transactions. The stock index, SAX, closed the first half of 2008 down 1.77 percent from the end of 2007.

Political Violence

¶36. There have been no reports of politically motivated damage to property, and civil disturbances are extremely rare. There has been no violence directed toward foreign-owned companies.

Corruption

¶37. In 1998, at the beginning of its first term, the Dzurinda government proclaimed the fight against corruption to be a priority. In 2000, the GOS passed a national anti-corruption program. Subsequently, it appointed a corruption steering committee, amended the Criminal Code in attempts to strengthen law enforcement, approved a law modernizing public procurement, and enacted a strong Freedom of Information Act. A special court and a special prosecutor for corruption and organized crime were established in ¶2003. Although attempts by the Justice Minister to eliminate the Special Court have been rebuffed by other government officials, including the Prime Minister, sympathetic parliamentarians have filed a petition with the Constitutional Court seeking a ruling on

the Special Court's constitutionality. A new law - stricter but still not sufficient - on conflict of interest came into force in October 2004. A special committee of parliament supervises the implementation of the law, but has not sanctioned any official covered by the law for violation of conflict of interest rules since its inception. Slovakia is also party to international treaties, among them the OECD Convention on Combating Bribery of Foreign Public Officials, UN Anti-Organized Crime Convention, UN Anti-Corruption Convention, Criminal Law Convention on Corruption and Civil Law Convention on Corruption. Slovakia is a member of the Group of States against Corruption (GRECO).

¶38. The press has taken an active role in reporting corruption, and public awareness has increased. The Slovak chapter of Transparency International (TI) is active and monitors public tenders. Slovakia is a signatory to the OECD Convention on Battling Bribery, and to give or accept bribes is a criminal act. Slovakia ranked 52 on TI's 2008 corruption perceptions index, down from 49 in 2007. The index measures the perceived level of corruption in 163 countries.

¶39. Non-governmental Organizations and the news media reported a growing number of corruption allegations during the course of 2008, including several allegedly involving senior members of the Slovak government. . In 2008, three government ministers were relieved of their posts because of concerns about non-transparent or inflated tenders or because of ethical violations. The European Commission has sought explanations in the case of two controversial tenders and in the firing of the head of the telecommunications office.

Bilateral Investment Agreements

¶40. Slovakia has bilateral investment treaties with the following countries: Austria, Belgium, Bulgaria, Belarus, Canada, China, Croatia, Cuba, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Indonesia, Ireland, Israel, Italy, Lithuania, Luxembourg, Malta, Montenegro, the Netherlands, North Korea, Norway, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovenia, South Korea, Spain, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, the United Kingdom, the U.S., and Uzbekistan. Like other new EU members, Slovakia had to negotiate an amendment to its bilateral investment treaty with the U.S., because it was considered inconsistent with EU legislation. The amended treaty entered into force on May 14, 2004. In November 2007, Slovakia signed a bilateral Science and Technology Agreement with the US.

OPIC and Other Investment Insurance Programs

¶41. The Overseas Private Investment Corporation (OPIC) offers U.S. investors in Slovakia insurance against political risk, expropriation of assets, damages due to political violence, and currency inconvertibility. OPIC can provide specialized insurance coverage for certain contracting, exporting, licensing, and leasing transactions undertaken by U.S. investors in Slovakia. Slovakia is a Member of the Multilateral Investment Guarantee Agency (MIGA).

¶42. The U.S. Embassy purchases local currency at a rate generated by the Department of State and the current rate (January 2008) is EUR 0.77 / USD 1.00. The Embassy expects to convert roughly USD 8 million during fiscal year 2009. In view of the high volatility of currency markets during the course of 2008, analysts' predictions for 2009 show a weak consensus for some depreciation of the euro.

Labor

¶43. The government of Robert Fico delivered on its pre-election promises and amended the Labor Code in 2007, providing more protection for employees on the issues of working hours and safety, and strengthening the role of unions. The final compromise legislation did not contain many of the more controversial proposals from the original draft, including limitation of overtime hours, limits on independent contractors, and doubling of sick leave allowances.

¶44. Slovakia's workforce of more than two million has a strong tradition in engineering and mechanical production. Literacy in Slovakia is almost universal (more than 99 percent), and most workers are highly educated and technically skilled. Foreign companies frequently praise the motivation and abilities of younger

workers, who also often have good foreign language and computer skills. However, older workers often have poor foreign language and managerial skills. Slovaks have a reputation for being technically skilled, particularly in heavy industry. Education levels match or exceed neighboring countries; with nearly 86 percent of Slovaks aged 25-64 having at least a high school education. According to the World Bank's Student Learning Assessment Database, Slovaks outscored all other central and eastern European students in math and placed third (behind Hungary and the Czech Republic) in sciences.

¶45. At just EUR 9,216 per employee (approx. USD 11,520), Slovakia had the second lowest remuneration costs in the EU in 2006, according to a survey by Deloitte and Touche published in early ¶2007. Employer costs for employees in the Slovak economy represented only 18.3 percent of that in Germany. The survey takes into account tax and social security costs as well as average earnings. Of the 10 new EU members, only Latvia was cheaper for employers than Slovakia with remuneration levels of USD 6,405. Total hourly labor costs in Slovakia rose at an annual rate of 7.1 percent in the third quarter of 2007. According to figures released by Eurostat, the statistical office of the EU, indirect costs, which include employers' contributions to social and health-insurance funds and employees' personal income tax grew 7 percent, while direct wage costs on net wages rose 7.2 percent.

¶46. The unemployment rate hovered around 20 percent as recently as five years ago, but has declined to a range between 7-8 percent due to strong economic growth, entry to the EU, and stricter policies on qualifying for unemployment benefits. However, there are extensive regional variations in unemployment rates across country, with a rate of less than three percent in Bratislava but up to 25 percent in some parts of eastern Slovakia.

¶47. After the latest amendments to Labor Code in April 2007, the workweek is standardized at 40 hours, and the overtime allowance was decreased to 100 hours per year, pending an agreement between employers and employees. Despite these recent legislative changes, Slovakia remains one of the most liberal economies in Europe. In October 2007, the minimum wage was set at SKK 8,100 (approx. USD 338) per month. Wages have been rising since 2004 following the country's accession to the EU and because of increasing demand for labor brought on by growing levels of FDI. A new law on minimum wage, taking effect at the beginning of 2009, will introduce a more regular review of minimum wage, indexed to overall wage growth. Slovak social insurance is compulsory and includes a health allowance, unemployment insurance, and pension insurance. The ceiling on social insurance payments affecting both employers and employees was increased under legislation passed in 2007.

¶48. Union membership has been on the decline in recent years. According to the Confederation of Labor Unions, 21 percent of the total Slovak workforce belongs to trade unions. In 2007 the Fico government re-instituted the so-called "tripartite arrangement," a discussion platform consisting of state representatives, labor unions and the employers' association. The unions generally have been tolerant of the costs imposed on labor by economic transformation, but union leadership has remained politically engaged and is active among its membership. Before parliamentary elections in 2006, the Confederation of Labor Unions signed an agreement on cooperation with Smer, now the government's leading coalition leader, which led to the changes to the Labor Code in ¶2007. Slovakia is a member of the International Labor Organization and adheres to its Convention Protecting Worker Rights.

Foreign-Trade Zones/Free Trade Zones

¶49. Foreign trade zones or free ports were eliminated in Slovakia in ¶2006.

Foreign Direct Investment Statistics

¶50. The cumulative level of FDI has risen sharply from USD 2.1 billion at the start of 1999 to around USD 18.45 billion at the end 2006, with inflows of USD 2.16 billion in 2000, USD 1.27 billion in 2001, USD 4.1 billion in 2002, USD 1.1 billion in 2003, USD 1.1 billion in 2004, 713 million in 2005, USD 2.070billion in 2006 and USD 1.1 billion in 2007. Initially the majority of FDI was generated through privatization sales, but since 2003 most FDI has

been in the form of new development.

¶51. Through of the end of 2007, the leading portion of foreign investment went to the financial industry (with 36 percent of the total), followed by real estate (26 percent), industrial production (26 percent), and wholesale/retail trade (11 percent). According to the Slovak official statistics, Austria was the lead foreign investor in 2007, followed by Cyprus, Czech Republic, Netherlands, South Korea, Germany, France, Denmark, Belgium Hungary, U.S., and Italy. However, it should be noted that the GOS credits numerous U.S. investments to other countries if the investments came through the investors' foreign subsidiaries. For example, the U.S. Steel investment came in part from its subsidiary in the Netherlands, and therefore the GOS considers it to be a Dutch investment. A 2008 survey conducted by the U.S. Embassy shows U.S. investment in Slovakia at about USD 4 billion in current and future commitments, making the U.S. approximately the third leading foreign investor in Slovakia. According to the GOS, the Bratislava region absorbed the most FDI in 2007, followed by the Trencin and Zilina regions.

¶52. The largest U.S. investor in Slovakia is U.S. Steel, which acquired the core assets of the state-owned steel mill in Kosice. Together with its future commitments, U.S. Steel will have invested more than USD 1.2 billion in Slovakia, and it employs roughly 14,000 people. Whirlpool has invested over USD 100 million in Slovakia, employs more than 1,200 people and produces 2 million washing machines annually, making its local unit the largest appliance producer in Europe. Several other American companies already have substantial investments in Slovakia, such as Emerson Electric, Tower Automotive, Delphi, Johnson Controls, Lear, ON Semiconductor, Citibank, IBM, Molex, TRW, Visteon, AT&T, and Dell. The U.S. Commercial Service reports that there are over 120 U.S. companies present in Slovakia. Other large foreign investors in Slovakia include Volkswagen, Hyundai Kia, Peugeot Citroen, Samsung, Getrag Ford, Deutsche Telecom, Ruhrgas, Intesa BCI, UniCredito, Raiffeisen Group, Enel and Siemens.

Web Resources

¶53. National Bank of Slovakia www.nbs.sk
Center for Economic and Social Analyses www.mesa10.sk
Ministry of Economy of Slovak Republic www.economy.gov.sk
Ing. Slovakia www.ingfn.sk
The Slovak Republic Government Office www.government.gov.sk
Ministry of Finance of Slovak Republic www.finance.gov.sk
OECD www.oecd.org
International Monetary Fund www.imf.org

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